No. 01-

IN THE

Supreme Court of the United States

JAZZ PHOTO CORPORATION
AND DYNATEC INTERNATIONAL, INC.,
Petitioners,

v.

INTERNATIONAL TRADE COMMISSION
AND FUJI PHOTO FILM CO., LTD.,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether a United States patentee (or its licensee) who sells a patented article abroad without any restriction on use or resale has the right under the patent laws to prevent the owner of that article from using, repairing, reselling, or importing the article in the United States?

LIST OF PARTIES

In addition to the parties named in the caption, Opticolor, Inc. was a respondent before the International Trade Commission and an appellant before the United States Court of Appeals for the Federal Circuit. The following additional parties were respondents before the International Trade Commission but were not appellants before the Federal Circuit:

Achiever Industries Ltd.
Ad-Tek Specialties Inc.
AmerImage, Inc. d/b/a Rainbow Products
Argus Industries
Boechs Camera LLC
Boshi Technology Ltd.
BPS Marketing
China Film Equipment Corp.
E.T. Trading Ltd. d/b/a Klikit
Fast Shot
Forcecam, Inc.
Haichi International Inc.
Innovative Trading Co.
Labelle Time, Inc.
Linfa Photographic Ind. Co. Ltd.
Opticam Inc.
P.S.I. Industries, Inc.
Penmax, Inc.
PhilmEx Photographic Film
Rino Trading Co., Ltd.
Sakar International, Inc.
T.D.A. Trading Corp.
Vantage Sales, Inc.
Vivitar Corporation.

RULE 29.6 STATEMENTS

Petitioner Jazz Photo Corporation ("Jazz Photo) has no parent corporation, and no other publicly held corporation owns more than 10% of its stock. Petitioner Dynatec International, Inc. ("Dynatec") has no parent corporation, and no other publicly held corporation owns more than 10% of its stock. Dynatec has filed for bankruptcy, and its successor in interest with regard to the ongoing business concerns at issue in this case is Grandway U.S.A Corporation ("Grandway"). Grandway has no parent corporation, and no other publicly held corporation owns more than 10% of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Jazz Photo Corporation and Dynatec International, Inc. hereby petition this Court to issue a writ of certiorari to the United States Court of Appeals for the Federal Circuit in this case.

JUDGMENT FOR WHICH REVIEW IS SOUGHT

The judgment for which review is sought is *Jazz Photo Corporation* v. *International Trade Commission,* 264 F.3d 1094 (Fed. Cir. 2001), which is reproduced in the Petition Appendix ("Pet. App.") at pages 1a-25a. The order of the court of appeals denying rehearing and rehearing en banc is unpublished and is reproduced at pages 178a-179a. The General Exclusion Order and the Cease-And-Desist Orders of the International Trade Commission ("ITC") against

Petitioners are unpublished and are reproduced at Pet. App. 160a-177a. The Opinion of the ITC (public version) is unpublished and is reproduced at Pet. App. 26a-52a. The Final Initial and Recommended Determinations (public version) of the ITC Administrative Law Judge ("ALJ"), which the ITC adopted in relevant part, is unpublished, and germane excerpts are reproduced at Pet. App. 53a-159a. Ten copies of the ALJ order in its entirety have been lodged with the Court.

JURISDICTION

The court of appeals entered judgment on August 21, 2001, and denied rehearing and rehearing en banc on November 9, 2001. This Court has jurisdiction under 28 U.S.C. § 1254.

CONSTITUTIONAL, STATUTORY, OR OTHER LEGAL PROVISIONS

The relevant statutory provisions are 35 U.S.C. §§ 154(a) and 271, and 19 U.S.C. § 1337, which are reproduced in the appendix at 180a-200a.

STATEMENT OF THE CASE

This case presents a question of fundamental importance to patent law and international trade. For more than 100 years, it has been the rule in federal patent law that an unrestricted first sale of a patented article by a United States patentee, whether it occurs in this country or abroad, "exhausts" the United States patent rights in the article:

> [i]f the vendor's patent consists of foreign and domestic patents, the sale frees the article from the monopolies of both the foreign and domestic patents, and where there is no restriction in the contract of sale the purchaser acquires the complete title and full right to use and sell the article in any and every country.

3 Peter D. Rosenberg, *Patent Law Fundamentals* § 18.05[1], at 18-56 to 18-57 (2d ed. 2001); 5 Donald S. Chisum, *Chisum on Patents* § 16.05[3][a][ii], at 16-241 to 242 (2001). In the decision below, the Federal Circuit, *sua sponte* and without briefing by the parties, abrogated the bedrock rule of international exhaustion and held that patent rights are exhausted only if the patented article "has been lawfully sold in the United States." Pet. App. 14a. That ruling is in conflict with longstanding authority from the Second Circuit and indeed all cases in point, and upsets settled expectations of property owners. Conduct that was formerly considered perfectly legal – the use, resale, or importation of patented goods first purchased abroad in an unrestricted sale – now is deemed to infringe patent rights.

A patent grants to the patentee (or his heirs or assigns) "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States" for a statutorily defined term. 35 U.S.C. § 154(a)(1), (2). Federal law affords certain private judicial remedies to redress patent infringement, see, *e.g.*, *id.* §§ 271, 283-285, and also authorizes the ITC to issue orders excluding products that infringe United States patents from importation into the United States. 19 U.S.C. § 1337.

This case arises from a complaint filed in the ITC by respondent Fuji Photo Film Co., Ltd. ("Fuji") that 26 entities, including Petitioners, had infringed claims in 14 Fuji patents. Pet. App. 2a. Those patents concern devices called "lens-fitted film packages" ("LFFPs"), more commonly known as disposable cameras. The film in these cameras is originally loaded at the factory, and, after the film is exposed, the photoprocessor opens the plastic casing and removes the film for processing. { REDACTED

}

Petitioners import and resell within the United States "reloaded" LFFPs originally sold by Fuji and its licensees. At the time of the ITC proceedings, the reloading of Petitioners' cameras was performed entirely by third-party firms in China that had purchased used LFFP shells from photoprocessors and refurbished them for resale. Petitioners bought the reloaded cameras from the Chinese firms (or in some instances supplied the film or shells and contracted with the Chinese firms to perform the repair services), and imported them into the United States, often selling them in discount stores such as Walmart and Dollar General. The market for used LFFP shells has many beneficial effects; rather than discard such shells, photoprocessors utilize the profits from selling the shells to reduce photoprocessing costs to consumers, while at the same time eliminating a substantial source of environmental waste.

Fuji's position before the ITC was that the reloaders were not simply repairing the cameras, which is permitted under the patent law, but engaging in reconstruction of essentially new and different cameras, which is prohibited. In the alternative, Fuji argued that repair was a defense only to infringement of patents for the apparatus, but not to infringement of the design and process patents. Notably, Fuji never asserted, either before the ITC or before the Federal Circuit, that the repair doctrine was inapplicable to products sold abroad by the United States patent owner, despite knowing since the beginning of discovery in the litigation that many of the cameras at issue had first been sold abroad. In fact, neither Fuji nor any of the entities engaged in reloading LFFPs drew any distinction between foreign and domestic camera shells in litigating the claims of patent infringement, and the ITC itself never raised the issue in its decision.

Adjudication of the repair issues was complicated by the fact that the third-party Chinese suppliers "refused discovery entirely or in part," Pet. App. 7a, and they refused it to both Petitioners and Fuji because they did not want to become

embroiled in a patent dispute with Fuji. In fact, because many of the reloading procedures being used were clearly repair and not reconstruction, Petitioners tried as hard or harder than Fuji to gain access, resulting in some limited videotapes showing the repair process. However, discovery cannot be compelled in China, and Petitioners at the time had no contractual right to require the Chinese firms to provide access to their factories.

Despite the lack of full discovery of the repair procedures at the Chinese firms, and differences between particular products, the Administrative Law Judge nonetheless found that it was undisputed that there were at least eight steps common to the process used to refurbish all the LFFPs at issue:

> "These common steps (not necessarily in this order) are removing the cardboard cover, opening the LFFP body (usually by cutting at least one weld), replacing the winding wheel or modifying the film cartridge to be inserted, resetting the film counter, replacing the battery in flash LFFPs, winding new film out of a canister onto a spool or into a roll, resealing the LFFP body using tape and/or glue, and applying a new cardboard cover."

Pet. App. 74a. The ALJ held that those eight steps constituted recreation of an entirely new article in violation of the patent, and thus did not constitute permissible repair. *Id.* at 75a. Because Petitioners and the other entities admittedly engaged in those steps, the ALJ concluded that they were "recreating the patented single use camera of [Fuji] and its licensees and hence their actions are impermissible reconstruction." *Id.* at 157a.

The ITC adopted the findings and conclusions of the ALJ on repair and reconstruction outright, Pet. App. 30a-33a & n.5, and thus "ruled that the [reloaders] were not simply repairing the LFFP in order to achieve its intended life span, but created a new single use camera that would again be

discarded by its purchaser after use." *Id.* at 15a.[1] The ITC never suggested that patent infringement would turn on the situs of the sale (*i.e.*, whether the refurbished LFFP shell was originally sold in the United States or abroad), nor was that issue ever presented by Fuji. The ITC issued a General Exclusion Order – which is a form of in *rem order* excluding all products of this kind, not just those of the named parties – as well as cease-and-desist orders against the named parties. *Id.* at 2a; *id.* at 160a-177a.

Petitioners appealed the ITC orders to the Federal Circuit, which stayed those orders for the pendency of the appeal. Pet. App. 2a. Again, neither the ITC nor Fuji raised any argument that the situs of the original sale – domestic or foreign – determines whether a refurbished article infringes a United States patent. Fuji continued to assert that the repair doctrine was inapplicable to design patents and process patents, but never mentioned that it was inapplicable to products that the patent owner first sold abroad.

On the issues that had actually been litigated before and decided by the ITC, the Federal Circuit ruled generally in favor of Petitioners. The court of appeals noted that the repair/reconstruction dichotomy rested on the so-called doctrine of "first sale," which is a bedrock principle of patent law for determining exhaustion of the exclusive rights secured by the patent statute. Under this doctrine, "[t]he unrestricted

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[1] Although the ITC adopted the ALJ's reconstruction/repair determinations, it ruled that the ALJ erred in holding that the reloaders had the burden of proving the repair defense by clear and convincing evidence. Pet. App. 30a-32a. The ITC held that the proper standard of proof was preponderance of the evidence. *Id.* at 31a. However, because the ALJ had held that certain processes were reconstruction as a matter of law, and because respondents "failed to carry their burden of proof, regardless of the standard of proof that was imposed" given the "insufficient information" about some supplier's procedures, the ITC held that the ALJ's error did not affect the findings and conclusion on repair/construction that the ITC had adopted. *Id.* at. 32a & n.4.

sale of a patented article, by or with the authority of the patentee, 'exhausts' the patentee's right to control further sale and use of that article by enforcing the patent under which it was first sold." Pet. App. 14a. "[P]atented articles when sold 'become the private individual property of the purchasers, and are no longer specifically protected by the patent laws.'" *Id.* at 9a-10a (quoting *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544, 548 (1872)). The purchaser has the same rights of use and disposition of the patented article as he has for other property, but "the rights of ownership do not include the right to construct an essentially new article on the template of the original, for the right to make the article remains with the patentee." *Id.* at 10a. Nonetheless, as an incident to the purchaser's right of use, the purchaser has a right to repair the article to extend its useful life. *Id.* This right of repair passes to successive owners of the article. *Id.* at 11a (citing *Wilbur-Ellis Co.* v. *Kuther*, 377 U.S. 422 (1964)).

Reviewing this Court's decisions on the repair defense to patent infringement, the Federal Circuit held that "precedent requires that these cameras be viewed as repaired, not reconstructed." Pet. App. 15a. The basic activities performed by reloaders – "the acts of inserting new film and film container, resetting the film counter, and resealing the broken case" – were more akin to activities deemed to be repair under the case law. *Id.* at 16a. The Federal Circuit rejected Fuji's alternative arguments that the circumstances of the original sale imposed license conditions that effectively limited the right to repair, *id.* at 18a-19a, and that the principle of exhaustion and the repair defense applied only to apparatus patents, but not to design and process patents. *Id.* at 19a-21a. The Federal Circuit held that the eight steps that the ITC had found to be common to all LFFPs constituted permissible repair, *id.* at 3a, but declined to overturn the exclusion orders as to "LFFPs remanufactured by procedures more extensive than those we hold to constitute repair, or

whose remanufacturing procedures were withheld or insufficiently disclosed to the Commission." *Id.* at 25a.

The Federal Circuit, however, permitted the exclusion of certain properly repaired cameras by declaring, *sua sponte* and without requesting briefing from the parties, a categorical exception from the first-sale doctrine of exhaustion. It held that exhaustion of a United States patent from an unrestricted sale only occurs if the patented device "has been lawfully sold in the United States," and that "United States patent rights are not exhausted by products of foreign provenance." Pet. App. 14a. In support of that proposition, the Federal Circuit cited a single case, *Boesch* v. *Gräff*, 133 U.S. 697 (1890), which it characterized as establishing a blanket rule that "a lawful foreign purchase does not obviate the need for [a] license from the United States patentee before importation into and sale in the United States." Pet. App. 14a-15a. The Federal Circuit did not even cite or acknowledge, much less distinguish or analyze, the uniform and longstanding case law holding that *Boesch* does not apply when (as here) it is the the United States patentee or its licensee that has made the first foreign sale. Although neither the ITC nor Fuji had argued or even addressed this proposition, the Federal Circuit located a few statements in a motion that Fuji filed two years after the appeal was filed, which happened to mention the source of Jazz Photo's camera shells. Even the motion, however, did not raise the issue of whether foreign sales by the patent owner itself were exempt from patent exhaustion. Based on its reading of *Boesch*, the Federal Circuit ruled that its decision on repair "applies only to LFFPs for which the United States patent right has been exhausted by first sale in the United States." *Id.* at 15a, 25a.

Petitioners requested rehearing and rehearing en banc and requested a stay of the mandate, briefing extensively and for the first time the case law demonstrating that the first-sale exhaustion doctrine applies equally to foreign sales as well as domestic sales, so long as the sale is by the United States

patentee or its licensee. In their briefs on rehearing, neither Fuji nor the ITC cited a single case in which the United States patent owner itself had sold the product abroad, entirely free and clear, and was later allowed to restrict use or resale of that product in the United States. On November 9, 2001, the Federal Circuit denied rehearing and rehearing en banc (over the dissent of Judge Rader), Pet. App. 178a-179a, and on November 21, 2001, it denied the stay application and issued the mandate.

The Federal Circuit's ruling on foreign-sale exhaustion prevents Petitioners from importing products into the United States that would otherwise be noninfringing. Jazz Photo now has new suppliers whose procedures were not at issue in the ITC proceeding but which comply with the eight-step process that the Federal Circuit ruled was permissible repair. Jazz Photo also now owns and operates its own factories abroad in order to ensure that its products do not infringe Fuji's patents. Finally, in the wake of the Federal Circuit's ruling, Jazz Photo has required all preexisting third-party suppliers by contract to comply with the Federal Circuit's ruling and provide access to its factories for both itself and Fuji. Dynatec's successor in interest in its camera business (Grandway) also has new suppliers whose procedures were not at issue in the ITC proceeding. Nonetheless, because of the Federal Circuit's erroneous ruling that foreign first sales do not exhaust the United States patentee's rights in the article sold, the Petitioners are forbidden to import any foreign-shell cameras even though they were originally sold free and clear by Fuji and its licensees, and even though they are refurbished by the eight-step process that the Federal Circuit ruled was noninfringing repair.

REASONS FOR GRANTING THE PETITION

In the decision below, the Federal Circuit held that the unrestricted first sale of a patented article by a United States patent holder does not "exhaust" the patentee's United States

patent rights in the article if the sale occurred abroad. Pet. App. 15a. This ruling means that owners of goods purchased abroad do not own their property free and clear: a United States patent holder can assert his patent rights to enjoin the property owner from using, repairing, importing, or reselling those goods in the United States, or demand to be paid royalties for such conduct.

The Federal Circuit's ruling (which was delivered without any briefing from the parties on an issue that had not been raised previously in the litigation before the ITC, much less decided by the agency) jettisoned established law of more than 100 years that:

> [i]f the vendor's patent consists of foreign and domestic patents, the sale frees the article from the monopolies of both the foreign and domestic patents, and where there is no restriction in the contract of sale the purchaser acquires the complete title and full right to use and sell the article in any and every country.

3 Rosenberg, *supra* § 18.05[1], at 18-56 to 18-57; 5 Chisum, *supra* § 16.05[3][a][ii], at 16-241; David S. Safran, *Protection of Inventions In The Multinational Marketplace: Problems And Pitfalls In Obtaining And Using Patents*, 9 N.C. J. Int'l L. & Com. Reg. 117 (1983) ("It has long been recognized that [exhaustion] doctrine is not restricted to situations when a U.S. patentee has sold his goods within the United States, but also applies to the unrestricted sale of goods outside of the United States.").

The Federal Circuit's *sua sponte* legal ruling not only represents a dramatic break from a century of settled patent law, but also conflicts with a precedent of the Second Circuit established before the Federal Circuit was granted exclusive jurisdiction over cases arising under the patent laws, and indeed with every reported case on point. The Federal Circuit thus undid with a stroke of the pen, and without discussion or analysis of the extensive authority on point, a critical and

established doctrine that Congress has not seen fit to change in its many amendments of the patent laws in this century.

The importance of the decision below cannot be overstated. Patent exhaustion doctrine establishes the default rules for determining what property rights are conveyed in a transaction. By revising the default rules of international exhaustion, the Federal Circuit has reallocated rights from property owners to patent holders for all patented goods purchased abroad that are brought into this country. Federal law grants the patentee the right to exclude others from making, using, offering for sale, selling, or importing its invention in the United States. 35 U.S.C. § 154(a)(1), (2). Under the new rule set by the Federal Circuit, the patentee maintains those exclusive rights even in articles that it sold abroad without restriction, and the patentee now has the legal right to prevent an owner from using or reselling the property in the United States (or importing it into this country). This is so, even though this Court has held, and the Federal Circuit has acknowledged that if the article were sold within the United States, the patentee's rights would be exhausted. Consequently, the owner of a patented property item purchased abroad (such as a camera, watch, or car) can no longer use it in the United States without infringing the patent. No firm may repair that item to prolong the owner's use without risk of liability for contributory infringement. The burgeoning international trade in remanufactured or recycled goods is in jeopardy because (as in this case) importation of goods initially bought abroad would be deemed to infringe any applicable United States patent. Indeed, no good produced or assembled abroad with foreign-bought parts that are subject to American patent rights can now be imported into the United States without infringement, unless an additional license is secured from the American patent owner who sold the parts in the first place. Furthermore, no retailer or distributor can resell those goods because under the Federal Circuit's newly minted rule the

patentee retains the right to exclude others from selling those patented goods in the United States.

Worse yet, subsequent owners and purchasers of patented items that originated with and were freely sold for full compensation by the patent owner may no longer transact any business with respect to these goods without risk of liability for patent infringement. Thus, for example, when an owner of worldwide patents, including United States patents, sells goods to a distributor in England, and the distributor sells to its retail customers in several countries, retailers in the United States may be sued for patent infringement if they purchase and resell such goods from the distributor in England. This is true under the Federal Circuit's holding even though the United States retailer has no notice of any restriction on sale of such goods, and even though the patent owner sold the goods free and clear. In short, the Federal Circuit's decision places a restriction on subsequent alienation of property without any notice of such restriction at the time of sale, and extends such restriction to subsequent parties that are not even in privity with the patent owner. In effect, the decision below automatically encumbers all property sold abroad by implying a reservation of the seller's rights in the United States patent, contrary to the presumption that a purchaser has the unrestricted right to use and resell personal property that has been purchased outright.

The decision below is wrong in every respect; it is contrary to unbroken American law, offensive to fundamental legal policies against restraints on an owner's alienation and control of property, detrimental to free trade and competition, formalistic, and unnecessary to ensure adequate reward to inventors (who in any event could bargain around the former default rules by restrictions in the contract of sale). But this Court's review is imperative regardless of whether the Federal Circuit erred. The Federal Circuit's decision has upset settled expectations of property owners, and international trade cannot flourish where property rights are

uncertain. Moreover, it has done so on the basis of misinterpretation of this Court's precedent, an error which only this Court can correct. This Court must act now to restore order and certainty to the law of patent exhaustion.

I. THE FEDERAL CIRCUIT'S RULING, WHICH IS BASED ON A MISREADING OF THIS COURT'S PRECEDENT, IS A DRAMATIC BREAK FROM A CENTURY OF PATENT LAW.

The Federal Circuit held that patent rights are exhausted only by the first sale in the United States based solely on its interpretation of this Court's decision in *Boesch* v. *Gräff*, 133 U.S. 697 (1890). The court of appeals interpreted *Boesch* to hold broadly that "a lawful foreign purchase does not obviate the need for [a] license from the United States patentee before importation into and sale in the United States," even when the first foreign sale was by the United States patentee or its licensee. Pet. App. 15a. The Federal Circuit flatly misunderstood *Boesch* and its place in patent exhaustion doctrine, and its ruling has created a conflict with Second Circuit authority and indeed a century of prior federal law on the subject.

A. It Was Established Law Prior To *Boesch* That An Unrestricted Sale By The Patentee Or Its Licensees Exhausts The Patent Regardless Of The Situs Of The Sale.

It is a longstanding principle of federal patent law that an unrestricted first sale of a patented article by the patentee (or its licensee) "exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942). "[W]hen the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use." *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873). An

unrestricted first sale is thus considered to grant "an implied license" to use and resell the invention embodied in the article (and thus also to repair the article and maintain its usefulness). *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964); *Henry* v. *A.B. Dick Co.*, 224 U.S. 1, 23-24 (1912), *overruled on other grounds*, *Motion Pictures Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917). The rights of use and resale pass to all subsequent purchasers of the article. *Wilbur-Ellis Co.* v. *Kuther*, 377 U.S. 422 (1964).

The implied license of use and resale arises "as a matter of law." *Kendall Co.* v. *Progressive Med. Tech., Inc.*, 85 F.3d 1570, 1573 (Fed. Cir. 1996); *accord Univis Lens*, 316 U.S. at 249-50. The law implies such a license because "[b]y a valid sale and purchase the patented machine becomes the private individual property of the purchaser, and is no longer specially protected by the laws of the United States." *Bloomer* v. *Millinger*, 68 U.S. (1 Wall.) 340, 351 (1863); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) ("one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, *unrestricted in time and place*") (emphasis added). A purchaser who acquires "full dominion over the property of the machines" by an unrestricted sale necessarily maintains "an absolute and unrestricted right to use and operate them until they [a]re worn out." *Bloomer*, 68 U.S. at 350. The doctrine of first-sale exhaustion thus reflects the law's antipathy towards restraints on an owner's alienation and use of property, and reflects the general principle that rights in property sold are conveyed unless clearly reserved. See *Henry*, 224 U.S. at 23-24; *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 79-80 (2d Cir. 1920).

The presumptive rule of exhaustion is, however, only a default rule that applies to sales of patented articles "without any conditions." *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544,

547 (1872). Patentees may restrict the transfer of divisible patent rights by imposing otherwise lawful conditions on sale, *Brulotte* v. *Thys Co.*, 379 U.S. 29, 31 (1964), and thus may impose contractual conditions to avoid exhaustion. *General Talking Pictures Corp.* v. *Western Elec. Co.*, 305 U.S. 124, 127 (1938); *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700, 703 (Fed. Cir. 1992).

The doctrine of first-sale exhaustion developed in parallel in England as this issue came to the forefront after the Industrial Revolution. Cf. *Sears Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229-30 & n.6 (1964) (American patent law has its origins in English law). English courts, like their counterparts in this country, have long recognized that an unrestricted first sale of a patented article exhausts the patentee's right to control the subsequent sale of that article. See, *e.g.*, *National Phonograph Co. of Austrl., Ltd.* v. *Menck*, 1911 App. Cas. 336, 348-50 (P.C. 1911), *available at* 1908 WL 15379. Significantly, well prior to *Boesch*, it was held in 1871 that this doctrine applies with equal force when the article was sold in a foreign country by a vendor authorized by the English patentee.

> [I]nasmuch as [the patentee] has the right of vending the goods in France or Belgium or England, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them wherever the purchaser pleases. When a man has purchased an article he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his license to sell the article, or to use it wherever he pleases as against himself.

Betts v. *Willmott*, 6 Law Reports 239, 245 (Ch. App. 1871), *available at* 1871 WL 12598 (emphasis omitted); see also *Societe Anonyme Des Manufactures De Glaces* v. *Tilghman's Patent Sand Blast Co.*, 25 Law Reports 1, 9 (Ch. D. 1883), *available at* 1883 WL 19035 (Cotton, L.J.) (unrestricted sale

abroad creates in the purchaser "an absolute right to deal with that which he buys in any way he thinks fit, and of course that includes selling [it] in any country where there is a patent in the possession of and owned by the vendor").

Prior to *Boesch*, American law likewise recognized that United States patent rights in an article are exhausted by an unrestricted sale abroad. In *Holiday* v. *Mattheson*, 24 F. 185 (C.C.S.D.N.Y. 1885), the United States patentee sold a patented article in England "without restriction or conditions." *Id.* at 185. Relying on this Court's patent exhaustion cases, the *Holiday* court rejected a claim that a subsequent owner of the article infringed the patent by using or selling it in the United States, reasoning that the original purchaser "acquire[d] the right of unrestricted ownership in the article he buys against the vendor, including, as an inseparable incident, the right to use and enjoy it, and to transfer his title to others." *Id.* at 186.

B. *Boesch* Did Not Modify The Rule That An Unrestricted Sale Abroad By The United States Patentee Exhausts Its Rights In The Article.

Paying no heed to the case law before or since *Boesch*, the Federal Circuit ruled below on the claimed authority of *Boesch* that a first sale exhausts the United States patent only if that sale occurred in the United States. Pet. App. 14a-15a. But *Boesch* has no application to a case like this one involving foreign sales by a United States patentee or its licensees; it holds only that the sale of an article by a foreign vendor with no rights derived from the United States patent holder cannot exhaust United States patent rights, and thus prevent the United States patentee from asserting infringement when the foreign goods are brought into this country.

In *Boesch*, the defendant had purchased goods in Germany that were covered by both a German patent and a United States patent, and later imported them into the United States

for resale. 133 U.S. at 698-99. The seller from whom the defendant had purchased those goods in Germany had no right under either patent. Instead, German law contained a "grandfather" clause immunizing all persons who had previously made preparations to use the invention in Germany from patent infringement charges under the German patent only. The seller had such immunity and was thus authorized to sell the goods without violating the German patent. *Id.* at 701-02. The defendant claimed that because the seller was authorized by German law to sell the goods, the defendant was immunized by the first-sale doctrine from any claims that his importation of the goods into the United States infringed the separate United States patent.

This Court posed the "exact question presented" as "whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent." *Id.* at 702. It reviewed the cases that held that a first sale by the United States patentee or his assigns, unlike a license to manufacture or sell, exhausts the United States patent, for "'when the machine passes to the hands of the purchaser it is no longer within the limits of the monopoly'" and "'no longer under the protection of the act of Congress.'" *Id.* at 702-03 (quoting *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 549 (1852)). The doctrine, however, did not apply when no rights were conveyed under the United States patent, but the property rights of the seller arose only under foreign law:

> The right which Hecht [the German seller] had to make and sell the burners in Germany was allowed him under the laws of that country, and purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent.... The sale of articles in the

> United States under a United States patent cannot be controlled by foreign laws.

Id. at 703. Thus, *Boesch* holds only that "sales by parties who are unrelated to the United States patentee and derive no rights from the United States patentee do not exhaust the United States patentee's rights, even if the sales were authorized under foreign law." Margreth Barrett, *The United States' Doctrine of Exhaustion: Parallel Imports of Patented Goods*, 27 N. Ky. L. Rev. 911, 945 (2000).

As commentators long have recognized, but the Federal Circuit below did not, *Boesch* did not address the question of whether "an importer [would] infringe by domestic sale when he bought the product in a foreign country from the person who owns the United States patent." 5 Chisum, *supra* § 16.05[3][a][ii], at 16-241; Barrett, *supra* at 945. Indeed, it would be bizarre to read *Boesch* to overrule *Holiday* when it was common ground between the parties in *Boesch* that *Holiday* properly stated the law. Brief for Appellants at 7, *Boesch* v. *Gräff*, 133 U.S. 697 (1890); Brief for Appellees at 18, *Boesch* v. *Gräff*, 133 U.S. 697 (1890). The prevailing party simply pointed out that *Boesch* did not involve "the same question" because in *Holiday* (as here) the foreign purchasers had acquired the article from the United States patentee. *Id.*

C. The Ruling Below Conflicts With Second Circuit Authority And Overturns Law That Had Been Settled For A Century.

The Federal Circuit's holding that exhaustion doctrine only applies to first sales in the United States rejects more than 100 years of patent law to the contrary and directly conflicts with precedent of the Second Circuit. Soon after Boesch was decided, the Second Circuit held that Boesch did not alter the rule of Holiday, ruling that:

> [a] purchaser in a foreign country of an article patented in that country and also in the United States, from the

> owner of each patent, or from a licensee under each patent, who purchases without any restrictions upon the extent of his use or power of sale, acquires an unrestricted ownership in the article, and can use it or sell it in this country.

Dickerson v. *Matheson*, 57 F. 524, 527 (2d Cir. 1893). The Second Circuit properly distinguished *Boesch* as involving sale from a vendor "authorized only under the German patent or under the imperial patent laws of Germany," and that rights derived strictly from German law "did not authorize purchasers from him to sell the article in this country without the consent of the owner of the United States patent." *Id.* at 527-28. Infringement in *Boesch* turned on the rights of the seller, and had nothing to do (as the Federal Circuit wrongly supposed) with the situs of the sale.

The Second Circuit confirmed this rule in *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Engineering Corp.*, 266 F. 71 (2d Cir. 1920), in rejecting the patent owner's attempt to preclude use in the United States of an article purchased without restriction in Canada. Relying on *Holiday*, the Second Circuit once again looked to the rights of the overseas vendor, not the situs of the sale, to determine the rights exhausted during the first sale:

> If the vendor's patent monopoly consists of foreign and domestic patents, the sale frees the article from the monopoly of both his foreign and domestic patents, and where there is no restriction in the contract of sale the purchaser acquired the complete title and full right to use and sell the article in any and every country....
>
> ....
>
> ... As the Plaintiff has already been paid for these aeroplanes the full price it asked, it is no longer concerned about the price at which the article is sold, or whether the article is kept in Canada, or in Great Britain, or in the United States.

Id. at 78-79. Notably, the Second Circuit again specifically cited and distinguished *Boesch* as a case where the foreign sale involved "no participation whatever by the owner of the patent, either as a party or as a privy." *Id.* at 77. The Second Circuit indicated that a foreign sale by the owner of the United States patent rights did in fact exhaust those United States rights. Otherwise, a purchaser would be restricted from moving his own property across borders.

District courts in recent years have uniformly continued to draw these same distinctions, contrary to the Federal Circuit's rule. For example, the Southern District of New York has held that exhaustion doctrine:

> applies to an authorized first sale abroad by a patentee or licensee who also has the right to sell in the United States. Following such a sale, the holder of United States patent rights is barred from preventing resale in the United States or from collecting a royalty when the foreign customer resells the article here.

Kabushiki Kaisha Hattori Seiko v. *Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988). Another district court adopting the same rule properly distinguished *Boesch* as a case in which:

> it was not the patentee who made the sale abroad. In fact, it was not even a licensee of the patentee who made the sale.... Under the circumstances of *Boesch*, the patentee neither received compensation for the use of his invention, nor consented to its importation into this country. Here, however it was the [United States] patentee that made and profited from the initial sale abroad, and, despite having had the opportunity to do so, it placed no restrictions in the sales contract upon further disposition of the product by the purchaser.

Sanofi, S.A. v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 937-38 (D.N.J. 1983); 5 Chisum, *supra* § 16.05[3][a][ii] n.12, at 16-242 (citing additional cases).

Thus, prior to the Federal Circuit's decision, it was long settled patent law that a sale abroad by the United States patentee exhausted patent rights in the article sold. As one leading commentator has summarized the law:

> exhaustion of United States patent rights may occur if a sale in a foreign country is unrestricted and the seller holds the patent rights to sell in the United States as well as in the foreign country, but exhaustion will not occur if the person owning or possessing license rights under the United States patent is not the same person who has made or authorized the sale abroad.

5 Chisum, *supra* § 16.05[3][a][ii], at 16-242. A second commentator has likewise stated the law unequivocally as follows:

> United States product claims are not infringed where goods, though they read on those claims and were imported and sold within the United States, were purchased abroad from the holder of the United States patent, who did not as a condition of that sale expressly forbid their importation. The principle that the first sale of a product by a patent owner or his licensee exhausts the patent monopoly, and deprives the holder of patent rights of any further control over resale of the product, applies to an authorized first sale abroad by a patent owner or licensee that also has the right to sell in the United States.

3 Rosenberg, *supra* § 18.05[1], at 18-56 (footnotes omitted).

The Federal Circuit simply swept away without briefing, analysis, citation to any of the numerous cases on point, or discussion, a century's worth of settled law when it held that the first-sale doctrine does not apply to sales by the patentee or its licensees abroad, and that United States patent rights in an article are only exhausted by a "sale in the United States." Pet. App. 15a. Engaging in judicial freelancing without so much as a nod to case law in this area after *Boesch*, the

Federal Circuit adopted a rule that is plainly unsustainable and illogical, and elevates form over substance. The rights of the owner versus the patentee should turn not on the situs of the sale, but on the rights transferred in that sale.

II. THE FEDERAL CIRCUIT'S DRAMATIC BREAK FROM SETTLED LAW ON AN ISSUE CRITICAL TO INTERNATIONAL TRADE AND THE ALLOCATION OF PROPERTY RIGHTS WARRANTS THIS COURT'S REVIEW.

Patent exhaustion is one of the most important issues of intellectual property law affecting international trade. It is the subject of an extensive literature, and has been a source of friction in international trade negotiations, with the nations of the world recently declining in the latest multilateral treaty to "address the issue of the exhaustion of intellectual property rights," leaving the issue to domestic law. See *Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade In Counterfeit Goods*, Dec. 15, 1933, art 6, 33 I.L.M. 81, 86; see generally Barrett, *supra* at 918 & n.22.

This Court is especially vigilant to review the important patent rulings of the Federal Circuit because that court has since 1982 exercised exclusive jurisdiction in patent cases, 28 U.S.C. § 1295(a)(1), and patent law is not subject to further development in other circuits. This Court's review is all the more imperative when the rule adopted by the Federal Circuit breaks from established law that Congress has never altered in its numerous amendments of the patent laws, conflicts with longstanding precedents from other circuits, and creates unnecessary and disturbing turmoil in the reasonable expectations of property owners and traders. Furthermore, the Federal Circuit followed what it considered (erroneously) the binding rule of *Boesch* v. *Gräff*; it is this Court's exclusive prerogative and responsibility to determine the meaning of its precedents and to ensure that their misinterpretation does not affect legal rights in patented goods.

The implications of the ruling below, which alters the default rules of patent law and broadly reallocates property rights from one group (owners) to another (patentees), are immense. If a foreign sale does not exhaust United States patent rights in the article sold, the patentee retains the exclusive right to use and sell that article in this country, and the owner cannot use or sell personal property that she had purchased abroad in the United States without infringing the patent even though she purchased it from the patentee. Thus, a person who buys a patented Toyota car in Canada cannot lawfully drive it in the United States (or resell it); a tourist cannot use a patented Fuji camera she purchased overseas to take pictures in the United States; an airline cannot land a patented Airbus purchased abroad in the United States. No retailer can sell a patented good imported from abroad. Furthermore, the use or sale of even some goods sold in the United States would constitute infringement. Many goods sold in the United States are assembled abroad using patented parts purchased abroad. Because the U.S. patent rights in those parts are not exhausted by their foreign sale, no one can use or sell the article containing those parts in this country without the patentee's license.

Moreover, the ruling below has the untoward effect of giving the patentee the right under the patent laws to dominate the repair market for its goods. The right of repair is an incident of the right of use that is transferred by an unrestricted first sale. *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964). Thus, for example, Toyota Motor Company could sell its foreign-made cars to American distributors FOB Japan. Because it would retain the right to exclude use (and thus the right to exclude repair) under the Federal Circuit's decision, Toyota could demand royalties of American repair shops and auto parts suppliers that supply unpatented and unpatentable repair parts, who would not otherwise be subject to contributory infringement suits for providing service or parts for the repair

of those vehicles. This outcome is not only untenable, but also would be directly contrary to the driving principle of this Court's repair jurisprudence: namely, that the patent monopoly should not be extended into market dominance of repair services or parts, since that would overextend the patent monopoly to preclude sale of unpatented items. See *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 345 (1961).

The ruling below also unnecessarily disrupts international trade. It effectively abolishes the significant, environmentally beneficial trade in imported recycled electronic products, which include not just cameras, but also refurbished auto parts, inkjet and toner cartridges for computer printers, and durable goods like photocopiers. Cf. National Recycling Coalition, Electronic Recycling Initiative, *at* http://www.nrc-recycle.org/Programs/electronics (updated Mar. 28, 2001); Customs Headquarters Ruling 56412 (Jan. 31, 2000) (imported toner cartridges). Prior to the Federal Circuit's decisions, under established law, such importation was not infringement, regardless of where the first sale took place. Now by the stroke of the Federal Circuit's pen, those goods infringe the applicable United States patent if the first sale was abroad. Furthermore, no international distributor or trader can safely import any foreign goods sold by the United States patent owner into the United States; in order to trade legally, the distributor, or subsequent purchasers from such distributor who are not privity with the U.S. patent owner, will have to secure licenses and pay an additional royalty to the same U.S. patentee from whom the goods were procured and who already received payment for the goods. See U.C.C. § 2-312(3) (in a contract of sale "a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement").

There is no justification for a default rule of patent law that is so detrimental to the public and to free trade and contrary to

reasonable expectations of rights in personal property. "[P]atent [] ... privileges [are] restrictive of a free economy" and thus are "strictly construed." *United States* v. *Masonite Corp.*, 316 U.S. 265, 280 (1942). The primary purpose of the patent laws is to advance the common welfare, and rewards to inventors are secondary and but a means to that end. *Id.*; *Kendal* v. *Winsor*, 62 U.S. (21 How.) 322, 328 (1858). Moreover, the prior rule of international exhaustion does not deny a just reward to inventors; they have received consideration for the use of the invention in the purchase price of the article or (when the first sale is by its licensee) a royalty paid them from that price. *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456-57 (1873). { REDACTED

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Bloomer v. *Millinger*, 68 U.S. (1 Wall.) 340, 350 (1863) (inventors "are entitled to but one royalty for a patented machine").

The rule of international patent exhaustion that prevailed prior to the decision below is only a default rule; if that rule is uneconomic in certain instances, the patentee may always impose restrictions in the sale of its goods abroad to avoid exhaustion, so long as those conditions do not violate other law (such as the antitrust statutes). See *Dickerson* v. *Tinling*, 84 F. 192, 195 (8th Cir. 1897). Requiring the patent owner to impose such restrictions if it wishes to reserve his United States patent rights is in accordance with the presumption throughout property law – an unrestricted sale should be assumed to convey the full right to use and resell the property

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anywhere the purchaser wishes. Furthermore, by requiring any such restriction to be in writing, a court can then determine exactly the scope of such restriction, and whether such restriction on subsequent use or sale of the product runs afoul of antitrust or other laws. Purchasers, and subsequent owners, will be on notice and can negotiate the price accordingly. Finally, the patent owner is not deprived in any way, since he can negotiate an acceptable restriction at the time of sale.

Such restrictions are often not economically feasible, however, and thus are not universal; for example, a foreign manufacturer with an international market is not going to buy component parts from a patentee that insists on reserving its U.S. patent rights, because there will be no market among American retailers and consumers for goods that cannot be lawfully sold or used in the United States. There is no warrant for making the Federal Circuit's rule, which is inconvenient and uneconomic in broad application, the default rule for determining United States patent rights in goods in international trade.

Significantly, in abrogating a rule in force for over a century, the Federal Circuit placed United States law directly at odds with that of Japan, Fuji's home country. In the case of *BBS Kraftfahrzeugtechnik A.G.* v. *Rashimekkusu Japan Co.*, Case No. H6-(Ne)-3272 (Japan 1997), *translated in* 29 *Int'l Rev. Indus. Prop. & Copyright* 331 (1998), the Japanese Supreme Court strongly endorsed the rule of international exhaustion, ruling that hubcaps sold in Germany with the authority of the Japanese patent holder could be imported into Japan without infringing the Japanese patent. *Id.* at 335. The court concluded that, as a matter of Japanese patent law, a Japanese patentee who sells a patented article abroad without restriction has "endowed the transferee or any subsequent purchaser with the right to undertake further transactions with third parties, including the importation to Japan, use in Japan, and transfer of ownership on our domestic market." *Id.* at

334. The court noted that international exhaustion furthers the free circulation of goods; in an increasingly global economy, "it can be naturally expected that such goods may be imported into Japan if the patentee puts such goods into circulation abroad without any reservations at the time of transfer." *Id.* Given the strong policy interests favoring international exhaustion and the self-protective measures afforded to patentees, it is difficult to justify the Federal Circuit's abandonment (without congressional directive) of a rule that has so long endured in the United States and that has taken hold in other industrialized nations. Cf. D. Patrick O'Reilley & Seiji Ohno, *International Patent Exhaustion Licensing May Be a Remedy*, SF24 A.L.I.-A.B.A. 395, 397 (2000) (course of study) (documenting the trend toward international exhaustion in other nations).

In summary, the Federal Circuit, misinterpreting this Court's precedent and breaking with longstanding authority of other circuits, has effected a radical and detrimental change in federal patent law that broadly affects the allocation of property rights in goods in international circulation. Its decision is wrong, but this Court should review the decision below regardless of whether the Federal Circuit erred. Settled, investment-backed expectations of property rights have been dashed; prices of goods cannot be reasonably negotiated absent certainty about the rights conveyed; the lawfulness of future transactions in an important area of commerce is in doubt. International trade cannot flourish while property rights are uncertain, as they will be until this Court decides whether or not it will embrace the Federal Circuit's novel rule.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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